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Dherment-Ferere, I.; Renneboog, L.D.R.

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By Isabelle Dherment-Ferere and Luc Renneboog

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Isabelle Dherment-Ferere*
and
Luc Renneboog**

* Department of Economics, University of Toulon and Institute of Business Administration (IAE-CEROG), University of Aix-en-Provence (Aix-Marseille III).
** Department of Finance and CentER for Economic Research, Tilburg University.

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Abstract:

This study has analysed the share price reactions to changes in top management. A distinction was made among different types of CEO turnover: forced resignation, voluntary departures and age-related retirements. The announcement of a forced CEO resignation is hailed favourably by the market with a small but significantly positive abnormal return of 0.5%. The market may have anticipated the forced turnover since the abnormal return over a one-month period prior to the turnover amounts to 6%. Whereas voluntary resignations do not cause a price reactions, age-related turnover triggers a small negative price reaction. Subsequently, a more detailed classification of the change of top management was made based on the background of the successor (an internal versus external candidate), on the size of the corporation and the degree of corporate diversification. Expectedly, the nomination of an external manager following the performance-related forced resignation of a CEO causes a strong increase in abnormal returns of more than 2%. The cumulative abnormal return of an internal CEO promotion in a poorly performing firms drops by almost 1% on the day of the announcement. Presumably, this is because the internal manager is held (partially) responsible for past poor performance. In companies with good past performance and with internal succession, there is a price decline, but this is not statistically significant.

The paper also analysed which corporate governance mechanisms are responsible for forced CEO turnover. A logit regression which accounted for time and industry specific fixed effects did not reveal a relation between performance and turnover. Furthermore, institutional investors, banks and the government do not seem to provoke CEO departures even if they own large blocks of equity. We did not find evidence that the government exerts control in the companies in which it holds majority shareholdings. In contrast, when industrial companies are major owners, there is evidence that forced turnover is facilitated. It also seems that it is easier to remove management in smaller companies than in larger ones. On the part of holding companies, there is only some evidence that they take a monitoring role in the case of other listed holding companies. No correlation was discovered between the degree of leverage and forced CEOs departures, although CEO turnover is facilitated if creditors have their own representatives on the board. Likewise, a high proportion of shareholder representatives on the board leads to a higher probability of forced CEO resignations. However, this probability decreases when the founding family is represented by one or more (executive) directors.

1. Introduction.

Throughout changing economic conditions and business cycles, managerial quality is maintained by the intervention of internal and external corporate governance mechanisms. Supervision by the board of directors, intervention by large shareholders, discipline from debt markets, competitive pressure from product markets control managerial behaviour. In some cases, when insufficient monitoring or managerial entrenchment has insulated management and when corporate performance has declined, markets react favourably to the CEO departures. In this study we investigate whether forced CEO dismissal triggers positive abnormal returns in listed French companies. Voluntary CEO departures or unexpected deaths of CEOs may entail a loss of human capital to the firm. Hence, we also analyse whether negative abnormal returns can expected in these cases. However, these market reactions may be dimmed or intensified depending on the qualities of the CEO's successor and corporate characteristics. For example, following poor performance, an external CEO may be hailed more favourably by the market in contrast to an internal successor who may be identified with past corporate underperformance.

This study does not only does with price reactions after the a change in top management, but also investigates whether or not specific corporate governance mechanisms are involved in bringing about CEO departures. Therefore, we investigate the role of holding companies (the dominating large shareholders), industrial companies, families, institutions and the government in exerting corporate control. This study contributes to the corporate governance literature as, so far, hardly any empirical research was performed for French companies. In the remainder of this section we formulate the propositions and embed them in the literature.

1.1. Market reactions to forced managerial resignations.

Jensen and Meckling's (1976) agency theory highlighted that managers may seek maximisation of their own utility curve at the detriment of corporate value. Remuneration contracts may reduce conflicts of interest if performance-related contracts can focus managers' attention on the corporate value drivers. However, in contrast to Anglo-American countries, remuneration contracts on the basis of pay-for-performance are not yet as widespread in Continental Europe. Hence, as performance related contracts are rare, bad corporate performance, resulting from the non-alignment of managerial objectives and corporate goals or from low adaptability of managerial skills to a changing economic climate, often leaves the shareholders no alternative but to substitute incumbent

management. Forced managerial turnover is expected to lead to significant share price increases (*proposition 1*), even though the following costs have been incorporated: the search and hiring costs of new management (Walsh and Seward 1990), the costs of breaking the contract with the fired manager (Knoeber 1986) and the loss of company-specific human capital.

The first event studies investigating the price impact of forced managerial turnover in the US (e.g. Furtado and Rozeff 1987) reveal a positive but not statistically significant price increase. Worell et al. (1993) confirm a price increase of 2.3% but their results are statistically significant at the 1% level provided that the managerial resignation announcement includes the nomination of a successor.[1] The degree of price reaction also depends on the presence of internal monitoring mechanisms in the study by Weisbach (1988): there is no wealth impact if the managerial resignation takes place in a company of which the board is dominated by executive directors. However, top management substitution leads to a significantly positive price increase when the majority of the board consists of external independent directors. Denis and Denis (1995) study 69 forced resignations and find that the dismissal of underperforming management is greeted with relief by the market. There is a positive market reaction of 2.25% on the announcement day for companies which experienced a fall in performance over a three-year period prior to the managerial change.

However, the findings on forced managerial resignations are not unambiguous. Warner et al. (1988) uncover significantly negative cumulative abnormal returns of –4.3% subsequent to forced turnover (in the period of 5 to 30 days following the dismissal). This negative market reaction is explained by an information effect which masks the real impact of forced turnover on shareholder wealth: forced turnover may signal poor current and future performance which had not yet been uncovered nor anticipated by the market. Mahajan and Lummer (1993) confirm a (weakly) significant negative cumulative abnormal return measured over a two day period (the day before and the day of the announcement) for US companies. Whereas the studies described above are about US companies, Pige (1994) does not discover any such relations for a small sample of French companies.

[1] They find a 2.3% price increase (significant at the 1%-level) over the period [+1 day ;+30 days] if the announcement of the CEO departure (day 0) coincides with that of the nomination of a new CEO. The share price only increases by 2% (significance within the 10%-level) over the period [+1 day ;+30 days] if the departure and nomination announcements do not coincide. The fact that a resignation was expected by the market can be deduced from a price increase of 11% (significance of 5%) over a 30-day period prior to the CEO's resignation.

1.2. Market reactions to the death of the CEO.

Making abstraction of corporate performance, one would expect that the unanticipated death of the CEO would trigger a negative price reaction (*proposition 2*) since the company faces a loss in human capital which may have been company-specific. Johnson et al. (1985) do not detect any significant share price reaction around the announcement date, but discover increased volatility of abnormal returns subsequent to the announcement period. Worrell et al. (1993) reveal that the market reacts more negatively when the death of a CEO occurs suddenly compared to the cases in which the CEO dies after an illness, which provides some support for the informational efficiency of equity markets. Etebari et al. (1987) confirm the negative relation between CEO death and cumulative abnormal returns, but they find - after splitting the sample of deaths according to the cause of death (hearth attacks, accidents or suicides) – that accidents trigger significant positive market reactions of 8.25% over a 6 week window (symmetrically around the event day). This finding may result from the fact that CEOs may be entrenched – perhaps due to a long tenure with positive track record or due to a substantial ownership stake - and are difficult to dismiss even in the wake of poor performance.

1.3. Market reactions to non-conflictual resignations and retirements by top managers.

As retirements at the normal retirement age can usually be well anticipated, there is no reason that the announcement of a retirement would cause a price reaction (*proposition 3*). On the other hand, a non-conflictual resignation prior to retirement age may create a negative price reaction if the company loses valuable company specific human capital (*proposition 4*). The wealth effects of non-conflictual resignations were investigated in French and US companies by Hubler and Schmidt (1996) and Mahajan and Lummer (1993), respectively. Both studies reveal that the announcement of an executive director leaving the company on a non-conflictual basis coincides with a negative cumulative abnormal return (significant in the former, not significant in the latter). Still, the Mahajan and Lummer-study shows that there is a (significant) positive share price change when a CEO steps down but remains on the board as a director or when an executive director relinquishes his or her function but maintains a managerial role within the firm.

The findings on market reactions to age-related retirements are in line with the expectations: Furtado (1985), Beatty an Zajac (1987), Weisbach (1988) Mahajan and Lummer (1993) show

that there are no price reactions. Exceptional are the results of Denis and Denis (1995) who uncover a small but positive significant abnormal return of 0.6%. Presumably, the market reacts with relief as, in the US, some directors stay on the board beyond the retirement age of 65.

1.4. The choice of a successor.

Most event studies test hypotheses based on the reasons why top management is substituted but do not consider the price impact related to the qualities of newly hired or promoted management. For example, the market may react differently depending on whether or not an internal candidate is nominated as CEO. Promoting internal candidates may hold two advantages: they may have (i) better company-specific process- and technological knowledge, clearer insights in products, markets and competition, and a closer relation with clients and (ii) social networks via which they acquire specific internal information. However, if a radical break with an existing strategy is essential, an external successor may be preferred as he may bring about change and revived creativity. The choice of a new CEO may also depend on corporate characteristics such as performance, corporate size and the degree of diversity of corporate activities. These characteristics may dim or amplify the price reactions to the different types of CEO departures described above. Persistent poor corporate performance leads to higher CEO dismissal as found by e.g. Franks, Mayer and Renneboog (1998). As the CEO and his management team is responsible for poor performance, external succession - especially following forced turnover - is expected to trigger a positive market price reaction whereas internal promotion following poor performance may not be regarded favourably by the market (*proposition 5a*). In well performing companies, internal succession (after non-conflictual turnover) is less costly than external CEO succession. This implies that the expected negative price reaction after internal succession may be less substantial than after external succession (*proposition 5b*).

For large companies, it may be relatively less costly to nominate an internal successor than for small companies because large companies usually have a pool of potential successors. Hence, in the absence of poor performance, internal succession (after non-conflictual turnover) may cause less strongly negative reactions in larger companies than in smaller ones (*proposition 6a*) (Furtado and Rozeff 1987). If the need for new managerial skills is essential, external succession will cause a larger positive market reaction in smaller companies as it is easier to refocus the strategy of such firms (*proposition 6b*). The market reaction to a new top

manager may also depend upon the industry in which a company operates. If the company is diversified and operates in several unrelated industries, the value of the human capital of a new top manager can be assessed with less precision than in undiversified companies. Hence, external succession may trigger a stronger price reaction[2] in a diversified company compared to undiversified firms (*proposition 7*), because a new external manager may bring about higher value added in diversified firms (Parrino 1997).

1.5. Corporate governance mechanisms.

As the CEO is ultimately responsible for the corporate performance, disciplinary actions are to be expected as a result of poor share price and accounting returns if an efficient corporate governance policy is exerted. Both the share price return and accounting performance portray a myopic view of the true value of managerial skills reflected by corporate performance. The relation between executive director or CEO resignations and share price performance may be weaker because share prices already incorporate market expectations regarding managerial replacement. On the other hand, accounting data can be manipulated (temporarily) by the choice of accounting policies (Teoh et al. 1998). Therefore, the impact of both share price returns, and levels of and changes in operating and net accounting earnings on turnover are to be analysed.

A balanced board including both executives and non-executives reduces the agency costs and potential conflicts among decision makers and residual risk bearers. Non-executives are not only legally bound to monitor given their fiduciary duty, but they also often represent the large shareholders in an equity market with strong ownership concentration such as in France (Becht and Mayer 2000). Furthermore, non-executives have incentives to develop a reputation as monitors as they face an external labour market which provides some form of disciplining for passive leadership. Separating the roles of CEO and non-executive chairman is also considered to be a strengthening factor of the board's monitoring ability since a non-executive chairman ensures more independence from management. Such recommendations have been included over the past few years into several 'codes of best practice' such as the Cadbury Report in 1992 in the UK, the Dutch Peters Committee code in 1996 and the Belgian Commission of Banking and Finance code in 1998 (Goergen and Renneboog 2001). In contrast, French corporate law states that the chairman of the board of directors needs to assume the task of general management ('*doit assumer la direction générale de la société')*,

[2] Price reactions will be less strongly negative after non-conflictual turnover and less strongly positive after

but also that two managing directors can help him in this task. In 83% of listed public limited corporations (sociétés anonymes, SA's), the functions of chairman of the board and of the CEO are combined by one person (Dherment 1996).[3] The first French proposal of a corporate governance code by the Viénot Commission in 1995 did not follow the international consensus of appointing non-executive chairmen. This may be explained by the fact that the Viénot committee was composed of Chairmen/CEO's of listed corporations. The second Viénot report of July 1999 tones down its earlier conviction and suggests the option to introduce unitary or dual control[4].

The incentives to monitor and correct managerial failure depend on whether the amount of equity held by a shareholder (group) is large enough to internalise the costs of corporate control (Grossman and Hart 1988). Moreover, specific classes of owners may value control differently. This is reflected in the differences in control premium by category of owner because the additional compensation and perquisites the controlling security holders can accord themselves may differ across categories of shareholders. (Financial) holding companies are prevalent in France and their private benefits and reasons for control accumulation are manifold: capturing tax reductions by facilitating intercompany transfers and reducing transaction costs by offering economies of scale or by supplying internal sources of funds (Banerjee et al. 1997). Likewise, corporate shareholders may hold substantial share stakes in companies of a supplier or customer in order to influence and/or capitalise on their strategic decisions (Johnson et al. 2000). Financial institutions are often controlled by a holding company which also holds equity in the target firms. Consequently, the interests of a financial institution as a creditor and as an equity holder may diverge, such that in order to avoid conflicts of interest, this category of shareholder is not expected to actively monitor (Renneboog 2000). Therefore, a positive relation is expected between turnover and the equity stake held by holding companies, industrial and commercial firms, individuals and families and no relation between turnover and institutional ownership concentration (*proposition 8*).

Contrary to Anglo-American countries, ownership structures in France are usually complex and pyramidal, and are constructed for reasons of control leverage (Wymeersch, 1994). Therefore, decisions about disciplining management may not be taken by direct investors but rather by the

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conflictual turnover.

[3] In '*sociétés à directoire'*, a separation between the functions of CEO and chairman of the board is obligatory.

[4] The Vienot report states that '*le comité est favorable à l'introduction en droit français d'une option ouvrant au Conseil d'administration le choix entre le cumul ou la dissociation des fonctions de président et de directeur général*'.

ultimate shareholders who control the share stakes directly or through multiple tiers of ownership. Similarly, monitoring of Belgian listed firms is not performed by intermediate holding companies which are investment vehicles of controlling industrial companies or individuals and families, but by these industrial companies and families themselves (Goergen and Renneboog 2000) (*proposition 9*). When performance is poor, this may not only be the result of bad management but also of a breakdown in corporate control. Consequently, a (partial) corporate control market may arise as shareholders with little monitoring ability sell substantial share stakes to monitors aiming to improve poor corporate performance. Bolton and von Thadden (1998) point out that equity concentration embeds state-contingent control. If the new shareholders replace low quality monitors, stronger disciplining of the incumbent management may be expected (see Burkart et al. 1997).

When high leverage increases the probability of bankruptcy, close creditor monitoring may be expected. Thus, setting a high capital gearing amounts to the creation of a bonding mechanism for management (Aghion and Bolton 1992) and high turnover is expected to be positively related to high gearing (*proposition 10*). Denis and Denis (1993) show that creditor monitoring (measured by high leverage) combined with managerial ownership improves shareholder returns.

In the remainder of this study, we investigate how the resignation of top managers in French companies is received by the market. To summarise, we expect (i) an immediate positive price increase at the announcement of forced dismissals, (ii) a negative price change coinciding with non-conflictual resignations and with CEO departures due to illness or decease and (iii) no market reaction at age-related retirements. CEO departure usually coincides with the nomination of a new CEO and the choice between internal and external succession may depend on corporate characteristics such as corporate size, sector homogeneity and past corporate performance. We investigate whether these characteristics have a bearing on relations (i) to (iii). In section 2, the sample selection is described and the data sources and variables are disclosed. Section 3 discusses the results of the event studies. In section 4, we also investigate whether top management turnover is related to ownership and debt structure and internal corporate control mechanisms. Section 5 concludes.

2. Data and Methodology.

2.1 Sample selection and description of data sources and of variables.

The sample consists of 235 companies which experienced a change or their CEO (*Président Directeur Général)* during at least one of the years in the period 1988-1992 and were listed on the First Market the Paris Stock Exchange[5]. Over the five year period, 325 changes of CEO were recorded for the 235 listed companies. Incomplete data on share prices and undisclosed reasons for turnover reduced the number of companies to 207 (and to 277 CEO changes).

Information about the board of directors and the resignation of directors was collected from several sources. The database of the *Banque de France* contains for each director of a listed company, the name, date of birth, dates of nomination to and resignation from the board. The information concerning changes in the positions of CEO were verified with data from *l'Annuaire des Sociétés Cotées Desfossés (Dafsa-Desfossés)*. In order to collect announcement dates, a press search was performed using the newspaper *Les Echos*, the most important economic French journal. *Les Echos* contains a special section with new nominations of managers and directors. The findings were double checked with information from *La Tribune Desfossés*. In this press search, the following information was collected: the reasons given for the CEO departure, the controlling mechanism that intervened to remove a top manager and the number of directors departing along with the CEO. In addition to the announcement date of the resignation, other market sensitive information released close to the same date was also collected to disentangle the pure informational effect of the resignation.

Distinguishing among forced and non-conflictual resignations is difficult as euphemistic terms are often used to mask the dismissal or no reasons are given. We consider as forced resignations those cases where the CEO departure resulted from the non-renewal of the CEOs mandate as a director and from the formal CEO dismissal as reported in the database of the *Banque de France (BdF)*. This information was supplemented with data from *Les Echos*: although some resignations are classified as voluntary in the BdF-database, they were considered as forced if a press article alluded to a conflict (e.g. departure following a change in control, conflict with shareholders or the board of directors or another member of the management team, difference in strategic views, etc.). The sample of non-conflictual resignations includes departures where the CEO has taken the initiative and for which there

[5] The First Market or the Official Market consists of two markets: (1) Monthly settlement market (RM, règlement mensuel) with 190 French stocks and 90 foreign ones and (2) cash market with 260 French stocks and 110 foreign ones (with a transaction volume 25 times lower than that of the RM).

are no press articles suggesting a conflict. This category of non-conflictual resignations may also include departures due to illness or decease. Hence, we are relatively certain that the subsample of forced turnover consists of turnover due to conflicts. However, the sample with non-conflictual turnover which consists of voluntary resignations, may also contain some case of forced turnover due to poor or uninformative disclosure of the reasons for CEO departure. A third category of CEO departures consists of age-related retirements. Data on new corporate destinations of leaving directors and on the professional origins of nominated directors were collected from the guide *Who's Who*. This source allows us to distinguish between internal and external promotions to the board. We consider an external nomination to have taken place when an outsider was nominated to the board less than one year prior to his or her promotion to CEO.

In the annual reports of 207 French companies over the period 1988-92, 277 CEO resignations were identified. In 38% of these CEO departures, part of the management team left the firm along with the CEO. Table 1 shows that the BdF database reports 242 CEO changes whereas the financial press (the financial paper *Les Echos*) only reports 128 cases. 17% of the CEO turnover was age-related retirement and 7% of the resignations were caused by death or illness. Conflicts with the board of directors, the shareholders or other members of the management committee resulted in forced turnover in 10% of all the CEO departures, whereas in 20% there was no sign of conflict with 13% of the CEOs invoking personal reasons and 7% leaving to pursue other professional opportunities. Still, such voluntary resignations may still have been the consequence of undisclosed managerial disciplining. Table 1 also exhibits the differences in classifying the reasons of resignation between the BdF and the financial press. In 45% of the CEO departures mentioned in the financial press no reason for departure was given and the cases classified as 'dismissals' in the BdF database appeared to be a category in which departures for a variety of reasons were amalgamated. Consequently, only 92 CEO departures could be classified with almost complete certainty into one of the following categories (table 2): forced turnover (37 cases), non-conflictual resignations (34 cases) and age-related retirements (21 cases). It is these cases which are included in the event studies. It is these 92 cases which will be used in the event study analysis of sections 3.1 and 3.2 and the share price reaction model of section 3.3. In the CEO disciplining logit model of section 4, all data are included; if no reason is provided in the financial press or BdF database the turnover is assumed to be conflictual.

[INSERT TABLE 1 ABOUT HERE]

Company characteristics such as industrial sector, ownership structure, capital structure, market capitalisation, number of employees, accounting data, were collected from the DAFSA fiches (1987-93). Share price and dividend pay-out data were collected from the database FININFO which contains the daily closing prices for the French market indices CAC40 and SBF, for the sector indices and for all listed companies for the period 1988-92. The interest rate on short term government bonds is used as a proxy for the riskfree rate and collected from the *Statistiques Annuelles de la Société des Bourses Françaises* (SBF). Corporate size was measured by market capitalisation, total sales, total assets and total number of employees.[6] The following performance measures prior to the board turnover were chosen: ROE (on market and book value basis), market adjusted returns, Marris ratio, Treynor ratio, Tobin's Q for the year of turnover and one and two years prior. In addition, these performance variables were corrected for industry effects by taking the deviation from the industry averages.

Companies are considered to be sector-homogeneous when their markets, technologies and structures are similar. To determine sector-homogeneity, the average of the partial correlation coefficients between the returns of companies and that of their industrial sector is calculated by means of a multiple regression with corporate return as the dependent variable and with the returns of the market index and of the industrial sectors as independent variables. The partial correlation coefficient (C^p) measures the percentage of the return variation of the company explained by variation in sector returns: $C^p = (\beta/SE) / [(\beta/SE)^2 + (n-k-1)]^{1/2}$ with β representing the correlation of the corporate return with the industry return, SE the standard error of the estimated β, n the number of observations, and k the number of independent variables.

2.2 Methodology.

2.2.1. Abnormal return calculation and event studies.

In order to measure the abnormal return of share i at day t, the market and risk adjusted return is calculated which assumes that a version of the CAPM generates expected returns. For example, the Treynor-Sharpe-Lintner model, $E(R_{i,t}) = E(R_{F,t}) + b_i[E(R_{m,t}) - E(R_{F,t})]$, generates a return for every share i with $R_{F,t}$ being the return of a risk free asset and $R_{m,t}$ being the return

[6] In the regressions, the logarithm of the consolidated data is included.

of the market portfolio. The abnormal return $AR_{i,t}$ is the difference between the (logarithmic) nominal return and the expected return, $R_{i,t}$-$E(R_{i,t})$. Betas were estimated with daily returns over a period of 260 to 60 days prior to the announcement day 0. As the companies in our sample are liquid companies listed on the 'first market', a correction for thin trading was deemed not necessary.

To test whether the equally weighted arithmetic average of the abnormal returns ($\overline{AR_t}$) is statistically different from zero, the following test-statistics are used. N stands for the number of events, S stands for the standard deviation of the cross-sectional average abnormal returns, (T-τ) is the number of (trading) days over which the standard deviation of the cross-sectional mean abnormal returns are calculated. If the abnormal returns have an independent and identical distribution, the test-statistic has a Student T-distribution.

$$t - stat = \overline{AR}_t \,*/ S(\overline{AR}_t) \qquad \text{with :}$$

$$\overline{AR}_t = \frac{1}{N_t} \sum_{i=1}^{N_t} AR_{i,t}$$

$$S(\overline{AR}_t) = \sqrt{(\sum_{t=t}^{t=T} (\overline{AR}_t - \overline{\overline{AR}})^2 / N(N-1)}$$

$$\overline{\overline{AR}} = \frac{1}{(T-t)} \sum_{t=t}^{t=T} \overline{AR}_t$$

Subsequently, the cumulative abnormal return (CAR) can be calculated which cumulates

$$CAR_{t,} = \sum_{=t}^{=} \overline{\quad}$$

abnormal returns in the cross section of shares are from independent and identically distributed samples from a distribution with finite variance, the central limit theorem shows

number of shares increases. Brown and Warner (1980, 1985) show that, for small samples of 5 or 10 shares, the distribution of abnormal returns deviates from the normal distribution, but

the non-normality of daily returns does not have a significant impact on the event study methodology.

2.2.2. Price reaction regression models.

In order to explain the market price reaction at the announcement the voluntary or forced CEO turnover (measured by a 2-day abnormal return around the announcement day), the regression model presented in table 2 is estimated. The cases of turnover for which no unambiguous reason could be determined were excluded. The explanatory variables are corporate performance, size, sector homogeneity of the firm, a dummy variable indicating internal succession (a CEO promoted from the pool of managers of the firm) or external succession (CEO is recruited externally), and a dummy variable reflecting the type of resignation (forced versus voluntary departure). Table 1 also shows the reduced regression models for the specific combinations of forced/voluntary turnover with internal/external succession. For example, the degree to which the price reaction depends on past corporate performance and on the fact that the CEO was forced to resign while an external candidate was nominated, can be computed by summing up the parameter estimates β_{i2}, β_{i6} and β_{i8}. The coefficient β_{i2} by itself reflects the relation between the market price reaction and past performance when the CEO leaves voluntary and is succeeded by an internal CEO.

[INSERT TABLE 2 ABOUT HERE]

2.2.3. Disciplining of top management.

Logit regressions with panel data over the period 1988-92 whereby every year represents an individual observation are estimated to determine whether or not conflictual CEO turnover (dummy=1) is initiated by concentrated ownership or another monitoring mechanism. Industry and time specific fixed effects models are estimated with the executive board turnover as an independent variable. With regard to ownership concentration, a distinction is made among holding companies, institutions, industrial companies, government controlled investment agencies, and individuals and families. Variables capturing past corporate performance, the degree of leverage and board characteristics such as board size, the percentage of non-executives, the separation of CEO and chairman, the percentage of directors representing shareholders, debtholders and founders are also included. The robustness of the models is tested by including corporate dummies and by including taking innovations to remove firm-specific effects. In order to address the endogeneity problems lagged data for ownership, performance and debt policy were included in the models.

The relation between board restructuring, performance, ownership, leverage, board structure is

$$\text{Board restructuring}_{i,t,k} = \alpha_{i,t} + \sum_{k=1}^{2} \beta_{i,k} * \text{PERF}_{i,t-k}$$ Performance (lagged)

$$+ \sum_{l=1}^{9} \gamma_{i,l} * \text{CONC}_{i,l,t-1} + \sum_{l=1}^{8} \delta_{i,l} * \text{CONC}_{i,l,t-1} * \text{PERF}_{i,l,t-1}$$ Ownership concentration and interaction

$$+ \phi_{l} * \text{DEBT}_{i,t-1} + \eta_{i,l} * \text{DEBT}_{i,t-1} * \text{PERF}_{i,t-1}$$ Debt Policy and interaction

$$+ \sum_{n=1}^{5} \varphi_{i,n,l} * \text{BOARD}_{i,n,t} + \sum_{n=1}^{5} \lambda_{i,l} * \text{BOARD}_{i,n,t} * \text{PERF}_{i,n,t-1}$$ Board composition and interaction

$$+ \xi_{i,t} * \text{Leg.form} + \zeta_{i,t} * \text{Stock Exch}$$ Type of legal form, type of market

$$+ \kappa_{i,t} * \log(\text{SIZE}_{i,t}) + \sum_{p=1}^{8} \iota_{i,p} * \text{industry} + \sum_{q=1}^{4} \tau_{i,q} * \text{year} + \varepsilon_{i,t}$$ Size, industry and time dummies

i = company, t = year, k=type of board restructuring, l = classes of owner, n= number of board composition variables, p=number of industries, q is number of years.

- Board restructuring: a dummy variable = 1 when the CEO is forced to resign, and =0 if there is no CEO departure or if the CEO's departure is voluntary.
- PERF = performance variable measured by lagged (1) market adjusted returns, (2) level of ROE (earnings defined as earnings after tax), (3) changes in ROE, (4) level of ROA (earnings defined as operating earnings), (5) changes in ROA, (6) level of Tobin's Q (market value of assets / book value of net assets), (7) changes in Tobin's Q.
- CONC = ownership concentration (in %) by class of owner: (i) holding companies, (ii) banks, (iii) institutional investors (pension funds, investment funds, funds managed by insurance companies), (iv) industrial and commercial companies, (v) families and individual investors, not related to a director (vi) federal or regional authorities, (viii) executive directors and families, (ix) non-executive directors and families, (x) employees. Both the percentages of ownership by category of owner and the percentage held by the largest shareholder are included (in separate regressions). Both direct shareholdings by category of owner are included as are the direct shareholdings reclassified into the categories of owner based on the category of the ultimate (reference) shareholder (in separate regressions).
- DEBT = debt/total assets.
- BOARD = board composition (% of non-executive directors), separation of the functions of CEO and chairman (1=no separation), percentage of directors representing the founding family, percentage of directors representing the debtholders, percentage of directors representing the shareholders.
- SIZE = logarithm of total assets or of total employees.

- Leg.form. = Legal Form : Dummy is 0 if company is a Société Anonyme, is 1 if company is a Société Anonyme à Directoire, is 2 if company is a Société à Commandite par Actions.
- Stock Exch. = Type of stock exchange: dummy =0 if share is listed on the reglement mensuel (most liquid market) and 0 if listed on the cash market (CPT)

3. Market reactions to changes in top management.

3.1. Share price movements at announcement of CEO resignations: event study results.

Of all the CEOs who relinquished their functions, the destination of 124 could be traced: 48 moved to another firm, whereas 61 remained employed by the same company or became non-executive directors and 15 joined a firm belonging to the same corporate group. 98% of the announcements of CEO departures included the nomination of a successor. Contrary to the recommendations of good corporate governance in most countries, the functions of CEO and Chairman of the board are not separated in 84% of our sample.

Table 3 shows the market price reactions (cumulative abnormal returns) surrounding the announcement of 92 CEO resignations which could be unambiguously classified into the following categories - voluntary resignation, forced turnover and age-related retirement – which. Panel A reveals that non-conflictual CEO departures, including voluntary resignations as well as deaths and illness related resignations, do not trigger any significant market price reaction. Thus, there is no evidence that propositions 2 and 4, which state that the loss of the human capital coincides with the non-conflictual CEO departure (including death and illness of CEOs), creates negative price pressure. In contrast, proposition 1, which states that forced turnover increases shareholder wealth, is sustained. Panel B shows that, for the event window of 20 days around the announcement day, share prices increase by almost 0.5% within the 2% level of statistical significance. Panel D investigates whether there is a difference in price reaction between announcements of non-conflictual and forced turnover: the market reacts significantly and positively to forced turnover in comparison with the announcement of non-conflictual departure. Surprisingly, the announcement of an age-related retirement triggers a negative price reaction (panel C), which contradicts proposal 3. In table 3, the market price reaction takes place not on the announcement date itself but over a period of 20 days around day 0. This may result from the fact that in the case of conflicts or poor performance, the market may have anticipated a resignation, which can also be observed in figure 1 where the

cumulative average abnormal returns (CAARs) drift upwards in the period prior to the announcement.

[INSERT FIGURE 1 ABOUT HERE]

3.2. Share price movements at CEO succession announcement of: event study results.

Market reactions to changes in CEO and to internal or external promotions are expected to depend on past corporate performance. External CEO succession triggers stronger positive price reactions than internal succession if the renouncing management's performance, reflected in past corporate performance, was unsatisfactory (proposition 5a). If, on the contrary, past corporate performance was sound, internal promotion may create a less negative price reaction as the loss of company-specific human capital at the departure of the CEO is less (proposition 5b). In figure 2a, the wealth effect of the nomination of an external CEO is depicted for poorly performing companies[7]: while none of the abnormal returns prior to the announcement dates are statistically significant, the CAAR increases at the announcement by more than 2% to 2.86%. Figure 2b shows that in poorly performing companies with internal CEO succession, the CAAR is negative up to 10 days prior to the announcement, then becomes positive, but drops by almost 1% on the day of the announcement. All abnormal returns are not statistically significant apart from the price decline on the announcement day. These findings corroborate proposition 5a: in poorly performing companies, the nomination of an external CEO is greeted by the markets with a price increase. However, in poorly performing companies with an internal CEO promotion, the CAAR rises prior to the announcement presumably in anticipation to the removal of the incumbent CEO who is held responsible for the corporate performance. The market reacts negatively when an internal manager is promoted as this manager may be held partially responsible for past poor performance

In companies with good past performance and with internal succession, there is a price decline from day –5 to +4, but this is not statistically significant (figure 2b). External succession in companies with a good performance track record, share prices decline significantly from day –12 and after the announcement, the cumulative abnormal returns levels off (figure 2a). It should be noted that the number of events is small, but that these

[7] An promotion is defined as being external if the new CEO was neither employed by the company nor serves on the firm's board of directors at least one year prior to the promotion. Good and poor performance is defined as, respectively, above and below the median of the return on equity (ROE) corrected for the average industry ROE and taken over the year prior to the turnover. The findings are robust to the other definitions of performance described in section 2.

findings are not incongruent with proposal 5b which states that turnover in well performing companies induces a loss of human capital which is stronger when the new CEO is external to the company.

Figures 3a and 3b show the abnormal returns of an 80-day event window around the announcement of the promotion of an internal and external CEO respectively, in small and large companies. Internal succession coinciding with non-conflictual turnover may cause weaker (negative) reactions in larger companies than in smaller ones because the former usually have a pool of potential successors. Figure 3a corroborates proposal 6a: in small firms a significant negative market reaction of –7.34% takes place over the period day –2 to +3. If past poor performance has led to CEO removal, the nomination of an new external CEO may cause larger positive market reactions in smaller companies as it is easier to turn around or redirect the strategy of such firms. Figure 3b does not support proposition 6b as abnormal returns decline prior to the event data and continue to decline in the three weeks subsequent to the event.

If the company is diversified and operates in several unrelated industries, the value of the human capital of a new top manager can be assessed with less precision than in undiversified companies. Hence, external succession may trigger a higher positive price reaction[8] in a diversified company as the value added by an external manager may be higher than in non-diversified firms. Proposal 7 is not supported by our evidence.

[INSERT FIGURES 2A AND 2B, 3A AND 3B ABOUT HERE]

3.3. Share price reaction model.

Table 4 shows the relation between the cumulative annual average abnormal return in a 20-day event window at the announcement of CEO departure, and corporate size, past performance (industry corrected Return on Equity), degree of corporate diversification, type of CEO resignation (forced or voluntary) and origin of the CEO successor (internal or external). The explanatory variables in this cross-sectional regression explain a large proportion (48.6%) of the total variation in share price reactions. Past performance, forced departure and the interaction terms of performance and background of the new CEO (internal or external nomination) are statistically significant (within the 5% level).

In the case of a forced resignation by the incumbent CEO (resignation dummy=1) and of poor past performance (e.g. industry-corrected ROE of –10%), a positive price reaction of 2.9% is expected since the negative performance effect of –1.4% (β_{i2}) is more than compensated by the positive effect of the forced turnover with 4.3% (β_{i5}). Hence, this evidence supports proposition 1 which states that a positive price reaction is expected when the CEO is forced to leave when performance was poor. The positive price reaction increases by a further 1%[9] (β_{i8}) at the announcement of an external successor (succession dummy=1), which supports proposition 5a. When the CEO resigns voluntary (resignation dummy=0), is succeeded by an internal manager (succession dummy=0) and industry-corrected past return on equity was positive (e.g. 10%), a positive price reaction of 13.7% is obtained. This does not corroborate proposition 2. However, this positive price reaction is sharply adjusted downwards to 3.7% if the voluntary departing CEO (after past good performance) is succeeded by an external manager. This may reflect the loss of human capital, as proposition 4 states.

Propositions 6 and 7 which predict a relation between share price reactions and corporate size and the degree of corporate diversification are not sustained. Substituting industry-corrected ROE in the regression of table 4 by the Treynor ratio and Tobin's Q only yielded significant results similar to the ones presented in table 4 for the Treynor ratio. Substituting market capitalisation by total assets, number of employees, total sales did not have an impact on the results.

4. A CEO disciplining model.

Panel A of Table 5 exhibits the ownership structure and concentration for the sample of 325 listed companies. Panel A shows that industrial and commercial companies are the largest category of owners with an average of 22.2%. The combined direct ownership concentration of institutions – banks, investment and pension funds and insurance companies – amounts to 20.2% whereas holding companies own an average of 16.9%. Similar to Germany (Boehmer 1999) and Belgium (Renneboog 2000), ownership structure is typically complex with stakes held through multiple tiers of ownership. Hence, control is with ultimate shareholders who control either directly or indirectly via affiliated companies, a large percentage of the voting rights. We define a relation between an ultimate shareholder and a target company as a control

[8] Price reactions will be less strongly negative after non-conflictual turnover and less strongly positive after conflictual turnover.
[9] A beta of –0.1 multiplied a negative performance of –10% and the succession dummy of 1.

relation if (i) there is a series of uninterrupted majority shareholdings on every ownership tier throughout the pyramid or (ii) if there is a large shareholding of at least 25 percent on every ownership level in the absence of other shareholders with stakes of blocking minority size or larger. Panel B shows the ownership concentration based on direct and indirect control relations: the ownership percentages are reclassified based on the shareholder category of the ultimate owner who directly or indirectly controls these direct share stakes. Comparing panels A and B, the most remarkable change is that the government directly and indirectly controls 13.1% of the direct equity stakes of our sample companies. Panel B also show that families and directors often use intermediate investment vehicles to own share stakes. In the average company, the largest shareholder holds a majority stake of 52.3% (median of 51.3%), or of 53.9% (median of 53.4%) if those direct shareholdings directly and indirectly controlled by the same ultimate shareholder are summed (panels C and D). This stands in stark contrast with the UK where a coalition of the 5 largest shareholders typical owns only 40% of the shares (or voting rights). The second and third largest shareholder have typically no influence on how the company is run. In the highest ownership concentration quartile, the largest shareholder even has a supermajority of 75%.

In table 6, we investigate whether conflictual CEO removal resulting from poor corporate performance is caused by large shareholder activism or is facilitated by an efficient board structure. Past performance is measured both by lagged market corrected share price performance, Tobin's Q, levels and changes of return on equity (earnings after tax) and levels and changes of return on assets (operating earnings). Although there is strong evidence of performance-related top management disciplining in the US (Hermalin and Weisbach 1991), UK (Franks et al. 1998), Japan (Kaplan and Minton 1994) and Belgium (Renneboog 2000), there seems to be no consistent relation for the sample of French companies between past performance and forced CEO departures. Neither the performance terms shown in table 6 nor the interaction terms between performance and the disciplinary mechanisms (not shown) are statistically significant.

As ownership is strongly concentrated in France with the largest shareholder controlling a majority in the average company, board restructuring is expected to be initiated by this shareholder (such as holding companies, industrial companies). However, executive directors owning major share stakes may impede board restructuring. Institutional investors (banks, pension/investment funds, insurance companies) are not expected to monitor if they intend to

safeguard portfolio liquidity and to avoid transgressing the insider trading regulation. Proposition 8 is upheld by the findings of table 6. The presence of a holding company in the ownership structure is positively correlated with the probability of a forced CEO resignation. However, it is questionable whether the large holding companies do discipline poorly performing CEOs because the interaction terms of performance and ownership by holding companies is not statistically significant. Thus, in the wake of poor performance, holding companies do not seem to be instrumental in removing the incumbent CEO. Banerjee et al. (1997) and Renneboog (2000) found no evidence was found for respectively French and Belgian holding companies of wealth creation.

Table 6 also shows that the probability of forced CEO turnover increases when industrial companies own substantial shareholdings. The fact that the interactive terms of industrial ownership with performance is statistically significant (10% level) suggests that industrial companies assume a corporate governance role. It should be noted that the relation between CEO disciplining and ownership was only found after classifying the share stakes on the basis of the identity of the ultimate shareholders who control tier 1 directly or indirectly. Including only the direct shareholdings (by category of owner at the direct ownership level) did not yield any results. This supports proposition 9 which states that corporate governance actions are undertaken by ultimate shareholders rather than by the owners at the direct level. Table 6 also shows that banks or institutions do not partake in managerial disciplining. Furthermore, although many companies are (indirectly) controlled by the government, there is not evidence of performance-related corporate governance actions in these companies.

All in all, the relation between ownership concentration and disciplining is, at best, weak. The reason may be that much of shareholder monitoring and corporate governance actions is undertaken by shareholder representatives on the board of directors. To capture the board characteristics, the percentage of non-executive directors on the board is included as well as the percentage of directors representing the large shareholders, creditors and founding family. In line with in US and Belgian findings (Weisbach 1988, Renneboog 2000) but in contrast to UK findings (Faccio and Lasfer 1999, Franks et al. 1998), table 6 shows that the higher the percentage of independent directors, the higher the probability of forced CEO turnover. There is also strong evidence that in companies with a high percentage of the non-executive directors representing the shareholders a higher probability forced CEO is to be expected. Still, less forced CEO turnover is taking place when the board also comprises directors

representing the founding family. This may result from the fact that these founding families are trying to defend the private benefits they derive from their (executive) positions on the board.[10] No relation was discovered between capital gearing and forced turnover, although a creditor's influence may be captured by the percentage of directors representing shareholders which is strongly correlated with forced CEO departure. Finally, there is evidence that forced CEO turnover occurs more frequently in smaller companies.

[INSERT TABLES 5 AND 6 ABOUT HERE]

5. Conclusions.

This study has analysed the share price reactions to changes in top management. A distinction was made among different types of CEO turnover: forced resignation, voluntary departures and age-related retirements. The announcement of a forced CEO resignation is hailed favourably by the market with a small but significantly positive abnormal return of 0.5%. The market may have anticipated the forced turnover since the abnormal return over a one-month period prior to the turnover amounts to 6%. Whereas voluntary resignations do not cause a price reactions, age-related turnover triggers a small negative price reaction. Subsequently, a more detailed classification of the change of top management was made based on the background of the successor (an internal versus external candidate), on the size of the corporation and the degree of corporate diversification. Expectedly, the nomination of an external manager following the performance-related forced resignation of a CEO causes a strong increase in abnormal returns of more than 2%. The cumulative abnormal return of an internal CEO promotion in a poorly performing firms drops by almost 1% on the day of the announcement. Presumably, this is because the internal manager is held (partially) responsible for past poor performance. In companies with good past performance and with internal succession, there is a price decline, but this is not statistically significant.

The paper also analysed which corporate governance mechanisms are responsible for forced CEO turnover. A logit regression which accounted for time and industry specific fixed effects did not reveal a relation between performance and turnover. Furthermore, institutional investors, banks and the government do not seem to provoke CEO departures even if they own large blocks of equity. The institutions may not be interested in influencing corporate policy or taking corporate control actions (like the disciplining of top management) as they may end of with market sensitive private information. This might immobilise their share

[10] Whereas the shareholder and creditor representatives are non-executive directors, our data do not show

participations as they must avoid violating insider trading regulation. The monitoring inactivity of banks may be explained by conflicts of interest between their position as creditor and equity holder. The problems with Credit Lyonnais suggest a *laissez faire* mentality on the government's part as the intervention was late by many years. We did not find evidence that the government exerts control in the companies in which it holds majority shareholdings. In contrast, when industrial companies are major owners, there is evidence that forced turnover is facilitated. It seems that it is easier to remove management in smaller companies than in larger ones. On the part of holding companies, there is only some evidence that they take a monitoring role in the case of other listed holding companies. No correlation was discovered between the degree of leverage and forced CEOs departures, although CEO turnover is facilitated if creditors have their own representatives on the board. Likewise, a high proportion of shareholder representatives on the board leads to a higher probability of forced CEO resignations. However, this probability decreases when the founding family is represented by one or more (executive) directors.

whether a founder representative is executive or non-executive director.

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Table 1 : Reasons for CEO's resignations and their destinations.

	%	Number
Number of companies with CEO change		207
Number of changes of CEO		277
Only CEO leaves	62%	172
CEO and part of management team leaves	38%	105

Reasons for resignation:	**Reason mentioned in financial press**		**Reason mentioned in database of BdF**	
	%	**Numb. of cases**	**%**	**Number of cases**
Age related retirement	17%	21	3%	8
Death	4%	5	3%	6
Illness	3%	4	-	-
Personal reasons	13%	17	-	-
Non-renewal of contract	-	-	7%	17
Dismissal	-	-	72%	175
Change in the company's acts of incorporation	1%	1	4%	10
Other professional opportunity	7%	9	-	-
Conflict with shareholders, board or management	10%	13	1%	3
Merger			1%	2
No reason given	45%	58	9%	21
Total	100%	128	100%	242

	%	**Number of cases**	**Average age**	**CEO Tenure**
Forced departures (1)	40	37	60	4.5
Non-conflictual resignations (2)	37	34	59	8
Age-related retirements (3)	23	21	66	7
Total	100	92	61	6.5

Destination of CEO after resignation:	**%**	**Number of cases**
Remains in the same company	49%	61
Leaves for firm of the same corporate group	12%	15
Moves to other (non-related) firm	39%	48
	100%	124

Resigning CEO becomes:	**%**	**Number of cases**
CEO of another company	34%	96
Honorary chairman in old company	31%	87

(1) Departures are considered as forced resignations: (a) if the financial press alludes to a conflict with shareholders, or the board of directors (13 cases), (b) if the press does not specify the reason but the database of the *Banque de France* mentions the non-renewal of contracts (13 cases), (c) if the financial press mentions 'personal reasons' but the *Banque de France* specifies a case of non-renewal of the contract (11 cases).

(2) Departure is considered non-conflictual: (a) if the financial press or the *Banque de France* report a death (6 cases), (b) if the press indicates that the CEO for reasons of illness (4 cases), (c) if there was another professional opportunity (9 cases), (d) if the CEO invoked personal reasons, excluding the non-renewal of contracts (15 cases).

(3) The departure is accepted as a retirement if the CEO reaches the age limit or retirement age.

Table 2 : Share price reaction model.

Panel A : Explanation of price reactions following CEO substitution.

Dependent Variable	Independent Variable	Expected sign	Proposition
$(\text{Price Reaction})_i =$	$\alpha_i + \beta_{i1}$ corporate size	+	(6)
	$+ \beta_{i2}$ corporate performance	-	(1)
	$+ \beta_{i3}$ sector homogeneity of the firm	+	(7)
	$+ \beta_{i4}$ successor's origin (1=external)	+	5a
	$+ \beta_{i5}$ type of resignation (1=forced)	+	4
	$+ \beta_{i6}$ corporate performance * type of resignation	-	1
	$+ \beta_{i7}$ size * successor's origin	+	6
	$+ \beta_{i8}$ corporate performance * successor's origin	-	5b
	$+ \beta_{i9}$ sector homogeneity * successor's origin	+	7
	$+ \varepsilon_{i.}$		

Panel B : Reduced versions of the general regression model.

Forced departure	Successor's origin	Reduced regression models
Yes	Internal	$(\text{Price reaction})_i = (\alpha_i+\beta_{i5}) + \beta_{i1} * \text{Size} + (\beta_{i2}+\beta_{i6}) * \text{Performance} + \beta_{i3} * \text{Homogeneity} + \varepsilon_I$
Yes	External	$(\text{Price reaction})_i = (\alpha_i+\beta_{i4}+\beta_{i5}) + (\beta_{i1}+\beta_{i7}) * \text{Size} + (\beta_{i2}+\beta_{i6}+\beta_{i8}) * \text{Performance} + (\beta_{i3}+\beta_{i9}) * \text{Homogeneity} + \varepsilon_I$
No	Internal	$(\text{Price reaction})_i = \alpha_i + \beta_{i1} * \text{Size} + \beta_{i2} * \text{Performance} + \beta_{i3} * \text{Homogeneity} + \varepsilon_i$
No	External	$(\text{Price reaction})_i = (\alpha_I+\beta_{i4}) + (\beta_{i1}+\beta_{i7}) * \text{Size} + (\beta_{i2}+\beta_{i8}) * \text{Performance} + (\beta_{i3}+\beta_{i9}) * \text{Homogeneity} + \varepsilon_I$

Table 3: Market price reactions and the announcement of CEO resignations.

This table shows the Cumulative Average Abnormal Returns (CAARs) of specific time windows around the announcement of non-conflictual resignations (panel A) of forced dismissals (panel B) and of age related retirements (panel C). Panel D shows the difference in returns of non-conflictual versus forced turnover. Day 0 is the announcement date of the resignation; -5 to 5 stands for an event window of 11 days from five days (-5) prior to the announcement day to five days subsequent to day 0. Source: own calculations.

Event Window (Days)	Observations	CAARs	Student T-stat	p-value
Panel A: Announcement of non-conflictual resignation.				
0	34	0.003	0.388	0.704
-1 to 0		0.005	0.405	0.692
-2 to 2		-0.009	-0.395	0.700
-5 to 5		0.000	-0.001	1.000
-10 to 10		0.011	-0.537	0.600
-60 to -1		-0.054	-0.978	0.378
-60 to 30		-0.061	-0.974	0.359
Panel B: Announcement of forced resignation.				
0	37	0.005	0.782	0.454
-1 to 0		0.004	0.455	0.660
-2 to 2		0.060	0.313	0.761
-5 to 5		0.016	1.001	0.343
-10 to 10		0.046	2.953	**0.016****
-60 to -1		0.057	1.355	0.213
-60 to 30		0.079	1.261	0.243
Panel C: Announcement of retirement.				
0	21	0.000	0.102	0.921
-1 to 0		0.000	-0.043	0.966
-2 to 2		-0.003	-0.604	0.557
-5 to 5		-0.016	-2.392	**0.034****
-10 to 10		0.002	0.070	0.946
-60 to -1		0.010	0.267	0.795
-60 to 30		0.046	0.848	0.418

Panel D : Difference in returns: voluntary versus forced resignation.

	Difference In means	Student t-stat (equal σ^2)	Student t-stat (unequal σ^2)	p-value
0	0.002	0.214	0.202	0.833
-1 to 0	-0.001	-0.060	0.055	0.690
-2 to 2	0.069	0.503	0.477	0.620
-5 to 5	0.016	0.500	0.449	0.622
-10 to 10	0.035	2.191	2.031	**0.039****
-60 to -1	0.111	1.536	1.437	0.142
-60 to 30	0.14	1.580	1.580	0.134

Table 4 : Results of the share price reaction model.

Dependent var.: Cumulative Average Abnormal Return over day –10 and +10 (0 is announcement of CEO turnover)

Independ. variables	**Const.**	**SIZE**	**PERF**	**HOM**	**ORIGIN**	**RESIGN**	**RESIGN * PERF**	**ORIGIN* SIZE**	**ORIGIN* PERF**	**ORIGIN * HOM**
	α_i	β_{i1}	β_{i2}	β_{i3}	β_{i4}	β_{i5}	β_{i6}	β_{i7}	β_{i8}	β_{i9}
Coefficients	-0.029	-0.009	0.137**	-0.359	-0.088	0.043**	-0.049	0.007	-0.100**	0.764
t-stat.	-0.468	-1.100	2.474	-0.845	-1.189	2.355	-0.991	0.815	-2.256	1.480
p-value	0.645	0.285	0.023	0.408	0.249	0.029	0.334	0.425	0.036	0.155

R^2 adjusted : 0.486

F-test : 3.947 ***

Autocor. residuals (Durban Watson): 0.075; p-value (1.730)

Sample size : 92

The Kolmogorov-Smirnov test in both regressions indicates that the normality hypothesis of the residuals cannot be rejected: the significance tests are valid

Notes:

RESIGN = resignation: equals 1 in case of forced resignation and 0 in case of voluntary resignation. Age-related retirements are excluded from the sample.

ORIGIN = origin of the successor: equals 1 if the new CEO is external (was not previously employed by the firm or was employed for maximally 1 year) or 0 if the CEO is internal.

SIZE = corporate size measured by the logarithm of the market capitalisation.

PERFORM = performance measured by the change in ROE corrected for industry ROE in the year prior to the CEO substitution.

HOM = sector homogeneity of the firm measured by the correlation between the share price return of the firm and the return of the industrial sector.

***, ** and * stand for the significance at respectively 1%, 5% and 10%.

Table 5 : Ownership concentration by category of owner.

This table shows the descriptive statistics of ownership concentration for 11 categories of owner. Panel A classifies the direct shareholdings whereas in panel B the direct shareholdings are (re)classified based on the category of shareholder who ultimately controls (directly or indirectly by means of a cascade of intermediary shareholdings) the voting rights. The average size of the largest shareholdings is presented in panels C and D which respectively focus on direct and on direct and indirect voting right concentration. Source: own calculations.

Number of observations: 325 companies in 1992

	Mean	Standard Deviation	Skewness	Kurtosis	Median	75% quartile	Maximum
Panel A : Concentration of direct shareholdings by category of owner							
Holding companies	16.9%	28.4%	1.63	1.41	0.0%	20.0%	99.9%
Banks	9.0%	22.8%	2.84	7.09	0.0%	3.4%	100.0%
Insurance companies	6.7%	20.0%	3.25	9.56	0.0%	0.0%	95.1%
Investment/pension funds	4.5%	15.1%	4.38	20.52	0.0%	0.0%	99.5%
Industrial and commercial co's	22.2%	32.5%	1.21	-0.01	0.0%	44.7%	99.4%
Individuals and families	0.2%	1.3%	6.09	38.42	0.0%	0.0%	10.0%
Government stakes	2.1%	10.9%	5.73	32.39	0.0%	0.0%	79.4%
Real estate firms	1.1%	7.3%	7.69	62.75	0.0%	0.0%	74.3%
Executive directors	1.8%	7.9%	5.04	26.20	0.0%	0.0%	57.9%
Non-executive directors	1.0%	5.1%	7.41	62.51	0.0%	0.0%	52.1%
Personnel	0.1%	0.5%	10.18	110.61	0.0%	0.0%	5.6%
Panel B : Concentration of direct and indirect shareholdings by category of owner							
Holding companies	14.9%	28.4%	1.82	1.99	0.0%	10.2%	99.9%
Banks	7.5%	20.8%	3.23	9.75	0.0%	0.0%	100.0%
Insurance companies	2.4%	12.1%	6.26	40.43	0.0%	0.0%	97.1%
Investment/pension funds	3.6%	13.1%	4.84	26.07	0.0%	0.0%	98.9%
Industrial and commercial co's	14.8%	28.6%	1.85	2.02	0.0%	11.3%	99.4%
Individuals and families	2.9%	13.1%	5.41	30.55	0.0%	0.0%	99.3%
Government stakes	13.1%	26.3%	1.99	2.63	0.0%	10.0%	99.4%
Real estate firms	0.7%	6.2%	9.95	105.82	0.0%	0.0%	74.3%
Executive directors	3.9%	13.9%	3.87	15.26	0.0%	0.0%	92.0%
Non-executive directors	1.3%	6.5%	6.65	47.70	0.0%	0.0%	59.7%
Personnel	0.4%	4.8%	12.60	161.94	0.0%	0.0%	66.7%
Panel C : Largest direct shareholdings							
Largest	52.3%	28.9%	-0.04	-0.87	51.3%	72.3%	100.0%
2nd largest	8.2%	9.9%	1.38	1.69	5.5%	12.4%	48.8%
3th largest	3.0%	4.6%	1.56	1.96	0.0%	5.4%	21.0%
4th largest	1.3%	2.8%	2.41	5.65	0.0%	0.0%	15.6%
5th largest	0.7%	2.6%	9.15	118.05	0.0%	0.0%	36.8%
6th largest	0.2%	0.9%	4.87	24.05	0.0%	0.0%	6.7%
7th largest	0.0%	0.3%	15.33	246.66	0.0%	0.0%	5.0%
Panel D: Largest shareholdings (direct and indirect stakes combined)							
Largest	53.9%	29.0%	-0.15	-0.86	53.4%	75.2%	100.0%
2nd largest	7.4%	9.7%	1.57	2.36	4.7%	11.0%	48.8%
3th largest	2.4%	4.1%	1.82	3.03	0.0%	4.7%	19.3%
4th largest	1.1%	2.7%	2.76	7.98	0.0%	0.0%	15.6%
5th largest	0.6%	2.5%	9.71	127.80	0.0%	0.0%	36.8%
6th largest	0.2%	0.8%	5.50	31.37	0.0%	0.0%	6.7%
7th largest	0.0%	0.3%	15.33	246.66	0.0%	0.0%	5.0%

Table 6: Conflictual CEO turnover, performance, ownership concentration and board composition.

This table shows a logit model estimating the probability of CEO turnover (dummy=1) and its relation with past performance, as measured by Tobin's Q, share price returns, return on earnings and return on assets. Source: own calculations.

Sample size	373	297	374	374	369
CEO turnover	314	253	315	315	312
No CEO turnover	59	44	59	59	57

	Tobin's Q (average over t-1, t-2)		Market corrected share price return		Changes in ROE		ROA (average t-1, t-2)		Changes in ROA	
	Par. Estim.	p-value	Par. Estim.	p-value	Par. Estim.	p-value	Par. Estim.	p-value	Par. Estim.	p-value
Intercept	6.5644**	0.02	9.5768**	0.03	6.6261**	0.02	6.6277**	0.02	7.8566***	0.01
Performance t-1	-0.3236	0.40	-0.1943	0.75	-0.5747	0.17	-1.2296	0.43	-0.8567	0.66
Performance t-2			-0.1518	0.81	0.1696	0.53			2.1926	0.19
Ownership stake of the largest shareholder by class of ownership:										
Holding companies	2.1057**	0.04	3.9408***	0.00	2.4564**	0.02	2.1698**	0.04	2.2141**	0.04
Banks	-2.5657	0.55	-2.6193	0.59	-3.0829	0.51	-2.8765	0.50	-2.99	0.49
Institutions	0.6952	0.66	1.5283	0.37	1.5361	0.30	0.7629	0.62	0.582	0.73
Industrial companies	1.9724**	0.04	1.1691	0.34	2.2643**	0.02	2.055**	0.03	1.8602*	0.06
Families and individ.	-0.5573	0.81	0.2477	0.93	0.1844	0.94	-0.5087	0.83	0.0599	0.98
Government	1.0725	0.37	2.7501*	0.06	1.6489	0.17	1.1091	0.35	1.1509	0.34
Executives	1.4179	0.49	-3.3006	0.38	1.1885	0.56	1.4814	0.48	2.1398	0.30
Non-executives	3.484	0.14	4.1015*	0.10	3.6471	0.11	3.7056	0.11	4.3288*	0.09
Employees	0.842	0.71	-20.8806	0.99	1.3688	0.55	0.8644	0.70	0.3898	0.86
Board characteristics:										
Directors represent. Shareholders (%)	0.0463**	0.03	0.0586**	0.02	0.0458**	0.02	0.0501**	0.02	0.0412*	0.06
Directors represent. Debtholders (%)	0.0405***	0.00	0.0415***	0.01	0.0426***	0.00	0.0387***	0.00	0.0407***	0.00
Directors represent. founders (%)	-0.0457*	0.08	-0.0324	0.25	-0.0362*	0.10	-0.0484*	0.06	-0.0469*	0.07
% Non-executive directors	0.0662**	0.02	0.109**	0.02	0.064**	0.02	0.0683**	0.02	0.0793***	0.01
CEO=Chairman (=1)	-0.2196	0.86	-1.543	0.25	-0.1863	0.88	-0.2397	0.84	-0.3703	0.76
Corporate characteristics:										
Leverage	-0.0932	0.94	0.6563	0.69	0.2891	0.82	0.0987	0.94	0.4064	0.76
Size (ln of sales)	-0.1627***	0.01	-0.2166***	0.01	-0.1721***	0.01	-0.1625***	0.01	-0.143**	0.03
Legal form	-0.7602	0.56	-2.6017*	0.09	-0.7386	0.57	-0.9103	0.49	-1.0411	0.44
Type of exchange	-0.1498	0.70	0.2357	0.59	-0.1824	0.63	-0.203	0.59	-0.2506	0.55
Industry fixed effects	yes		yes		yes		yes		yes	
Time fixed effects	yes		yes		yes		yes		yes	
-2 Log Likelihood	0.0028		0.0001		0.0026		0.0028		0.0013	

Figure 1 : Wealth effects subsequent to announcement of forced and voluntary resignations.

Figure 2a : Wealth effects subsequent to internal CEO succession in poorly and well performing companies.

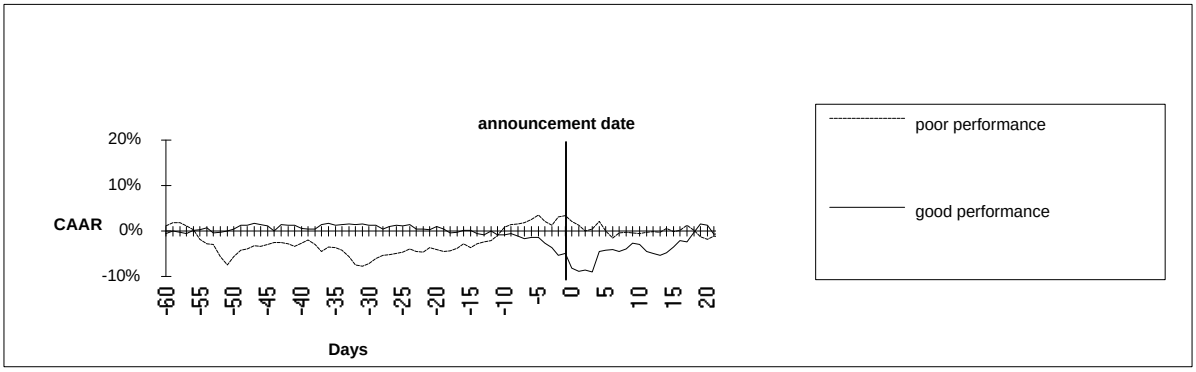

Figure 2b : Wealth effects subsequent to external CEO succession in poorly and well performing companies.

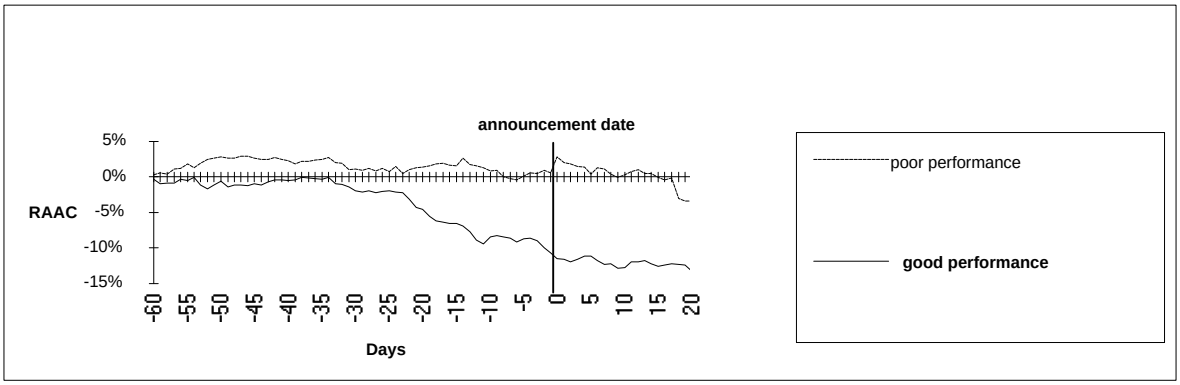

Figure 3a : Wealth effects subsequent to internal CEO succession in small and large companies.

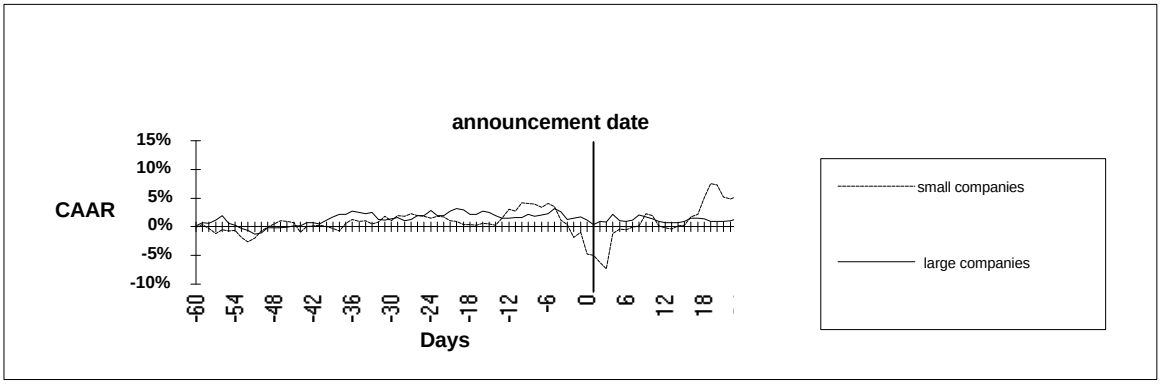

Figure 3b : Wealth effects subsequent to external CEO succession in small and large poorly performing companies.